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MONTHLY STATISTICAL HIGHLIGHTS

Softwood lumber production rose nearly 9 percent in September, while new orders jumped 37 percent.

In October, the lumber and wood products industry employed 742,000 workers, up 3.3 percent from a year earlier.

Through October, the U.S. imported $5.1 million of wood products from the Soviet Union.

Currently, The U.S. does not export any wood products to the Soviet Union.

1987 WAS THE YEAR FOR EXPORTS -- A NEW HIGH REACHED

With ten months of trade data available, it appears almost certain that wood products exports during 1987 will top $3.8 billion. We had already anticipated a banner year for wood products exports, but now believe the year's performance will reach a new high, surpassing that of 1980 when wood product exports totaled $3.67 billion. Wood exports during 1987 will be up approximately 30 percent, when compared with the previous year, thanks in large part to the decline in the value of the U.S. dollar and to much more aggressive overseas marketing programs. Furthermore, we project 1988 exports will increase by at least another 15 percent, given current trends and prospects.

All Product Groupings Advanced

During the first ten months of 1987, exports of all major product lines increased dramatically. Particularly noteworthy are gains in processed wood products. In volume terms, softwood lumber exports rose 27.1 percent, softwood plywood exports were up 37.6 percent, and hardwood lumber jumped 46.2 percent. Particleboard exports also climbed 39.5 percent.

The big change in the export market hierarchy in 1987 was the displacement of China by Korea as the third largest market for U.S.

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EDITOR'S NOTE: CHANGES AFOOT WITH THE ECONOMICS MONTHLY

To be effective, trade associations must respond to the changing needs of its customers -- the members -- by occasionally redirecting its services and programs. Given limited resources, adjustments are occasionally necessary. After a careful assessment, we have decided to replace NFPA's Economics Monthly with a new statistics-only publication to be known as the NFPA Statistical Roundup. The Roundup will feature the regular monthly data series which have been a hallmark of the Economics Monthly.

The first issue of the NFPA Statistical Roundup will appear in January, 1988. We'll also provide periodic economic commentaries in other forums including NFPA's monthly newsletter, In-Focus, and NFPA council publications. Economics Monthly subscribers will receive a letter detailing an option of continuing their subscription to this service.

I want to thank you for your interest in the Economics Monthly, and for your comments and suggestions during the past three years. With best regards for a happy, prosperous New Year.

Alberto Goetzl

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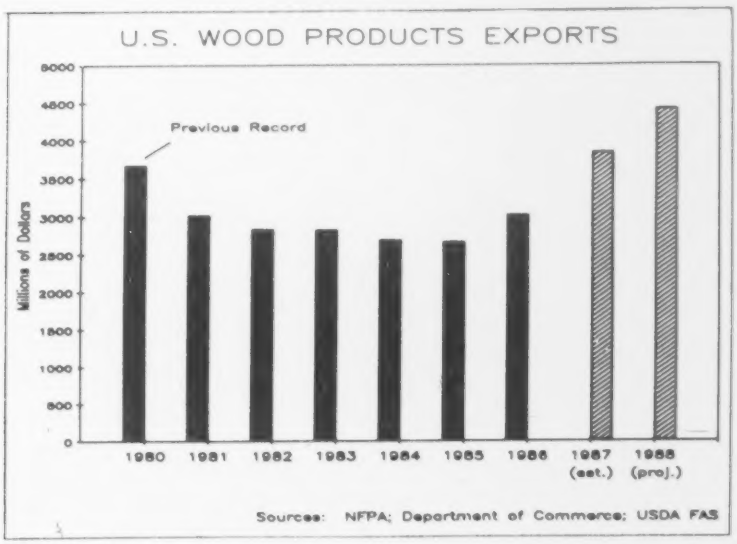
wood products. China reduced its purchases of wood (mostly softwood logs) beginning in 1986 because of the central government's tightened foreign exchange policy. By contrast, exports to Korea grew this year in parallel with the country's 12 percent economic growth rate.

Japan Leads the Way

Japan is America's largest wood products market. Japanese purchases in 1987 will have totaled better than $1.9 billion, up more than 50 percent from 1986. This is attributable to strong housing activity and increased use of American species in furniture and decoration. Housing starts in Japan numbered about 1.8 million units, up by over 30 percent. Other construction was also higher. Civil construction contracts were running 21 percent ahead of 1986 during the first nine months of 1987.

A major market development thrust by U.S. industry has also contributed to the increase in U.S. wood exports to that country. Last year, a U.S. funded project involving the construction of a three-story wood-framed house in Tokyo demonstrated to Japanese builders the benefits of using American techniques and wood products. That American Plywood Association project, known as *Summit House*, has fostered other similar developments in Japan. U.S. hardwood producers also promoted U.S. hardwood products through a series of trade shows and seminars. In 1988 is a new round of talks is planned to resolve building code and other technical issues that affect the use of American wood products in Japan. The Japanese have already agreed to alter their standard building code to permit three-story wood-frame construction for multiple-family housing. U.S. producers are increasing their success in Japan despite a change in the make-up of the new Japanese housing stock. Wooden structures make up about 44 percent of housing starts, down from 65 percent ten years ago.

Figure 1: U.S. wood product exports set a new record in 1987, and are projected to rise further in 1988.



Moreover, U.S. pressure on the Japanese to stimulate their domestic economy is beginning to show result. Japan's average bank loan interest rates dropped below 5 percent last year, the lowest in at least ten years. This should continue to stimulate housing and other purchases.

Taiwan's Growth Will Slow

The U.S. exported an estimated $140 million of wood products to Taiwan during 1987. Rising demand for American wood products, specifically hardwood and particleboard, has been fueled mainly by Taiwan's furniture boom. Much of the Taiwanese-produced furniture finds its way back to the United States where approximately $559 million worth of wood furniture and parts were imported from Taiwan in 1986. This was expected to be up by an additional 30 percent during 1987. However, the devaluation of

Table I:
Of the top ten export markets, only China reduced purchases in 1987.

the dollar will make Taiwanese furniture less competitive in 1988. Also, Taiwan lost its General System of Preferences (GSP) status for duty-free treatment of many of its goods, including furniture, effective July 1, 1987. As a consequence, we anticipate a drop-off of wood exports to Taiwan.

The People's Republic May Rebound

Foreign exchange reserves in China bottomed out at $6 billion during 1986 but and have now recovered to an estimated $14 billion. This may spark a new round of external purchases during 1988, including a rebound in imports of U.S. softwood logs. U.S. wood exports to China have declined since 1985. A new Ministry of Material and Equipment will likely be responsible for purchasing wood supplies during 1988.

Moderate Growth in European Demand Expected

The European outlook calls for modest economic growth in 1988, despite a decline in construction activity. Increased competitiveness of U.S. wood products because of the lower dollar should result in net increases in European imports of American softwood products. Sweden -- a major European wood source -- reduced exports in 1987 because of strong domestic markets and a reduced domestic supply. The situation should be similar in 1988.

Hardwood imports into Europe during 1987 were 9.1 percent above year-earlier levels and should rise further in 1988 although total European demand for hardwood should hold steady. Some analysts believe supplies of south sea species will tighten next year creating more opportunity for American hardwoods. Italy, for example, imports 70 percent of its wood requirements, mostly in the form of logs, for use in furniture manufacture. The principal Italian wood industry association has embarked on a three year promotion effort to stimulate overall wood usage in the country.

Value of U.S. Wood Product Exports
To Top Ten Markets

(Million $)

	Jan-Oct 1987	Jan-Oct 1986	Percent Change
All Countries	$3,197,957	$2,414,830	32.4%
Japan	1,462,949	1,013,440	44.4
Canada	393,023	301,790	30.2
South Korea	147,310	115,655	27.4
China	135,239	158,525	-14.7
W. Germany	128,298	102,927	24.6
Italy	114,114	72,171	58.1
United Kingdom	110,835	78,241	41.7
Taiwan	107,367	103,760	3.5
Mexico	88,990	66,242	34.3
Australia	54,933	41,488	32.4

Source: NFPA, U.S. Department of Commerce, USDA F.A.S.

Table II:
Exports to both European and Pacific Rim markets were up dramatically.

Value of Wood Product Exports
To
European Economic Community & Pacific Rim Countries

($ Thousand)

	Jan-Oct 1987	Jan-Oct 1986	Percent Change
EUROPE (EEC)			
Belgium & Luxembourg	$57,741	$39,900	44.7%
Denmark	20,359	17,521	16.2
France	14,787	13,334	10.9
W. Germany	128,298	102,927	24.6
Greece	14,212	7,104	100.1
Ireland	5,275	3,961	33.2
Italy	114,114	72,171	58.1
Netherlands	38,421	32,914	16.7
Portugal	437	348	25.6
Spain	52,318	31,539	65.9
United Kingdom	110,835	78,241	41.7
Subtotal	$556,797	$399,960	39.2%
PACIFIC RIM			
Japan	$1,462,949	$1,013,440	44.4
Korea	147,310	115,655	27.4
China	135,239	158,525	-14.7
Taiwan	107,367	103,760	3.5
Australia	54,933	41,488	32.4
Subtotal	$1,907,798	$1,432,868	33.1%

Source: NFPA, U.S. Department of Commerce, USDA F.A.S.

Further increases can be expected in 1988.

In a recent meeting in Geneva, Soviet representatives indicated that construction activity is on the rise in the Soviet Union as a consequence of that country's economic restructuring. Thus, Soviet lumber exports are expected to be tighten. However, because of the dire need for increased foreign exchange, the Soviet Union may push commodity exports, such as logs and lumber. Currently, the Soviet Union is a major supplier to China and Japan, two major U.S. markets.

Table III: Through the first ten months of 1987, lumber exports were up 35 percent.

U.S. Lumber Exports By Species
Ten Months, 1987

	Value ($ Million)	Volume (MBF)	% Change 86/87
SOFTWOOD			
Douglas Fir	$237,984	541,605	29.2%
Hemlock	174,533	521,814	24.9
Ponderosa Pine	46,219	204,055	34.0
Southern Pine	78,505	189,124	28.9
Spruce	28,060	79,372	-0.6
E. Red & White Pine	8,815	33,397	17.6
Other Pine	29,316	132,996	17.7
Fir	39,828	121,062	49.2
Larch	934	3,513	101.2
W. Red Cedar	10,662	24,833	38.4
Other Cedar	7,034	21,735	64.6
Redwood	5,961	11,751	31.1
Other Softwood Lbr. & Lbr. Products	21,763	62,373	38.7
Subtotal	$689,614	1,947,630	27.7%
HARDWOOD			
Maple, Birch, Beech	$14,090	36,889	47.4%
Red Oak	165,360	260,590	25.1
White Oak	93,958	101,510	34.6
Ash	29,515	55,131	138.4
Walnut	8,517	10,722	42.1
Other Hardwood Lbr. & Lbr. Products	81,210	141,216	44.4
Subtotal	$392,650	606,058	38.6%
TOTAL LUMBER	$1,082,264	2,553,688	30.1%

SOURCE: NFPA; U.S. Dept. of Commerce; USDA FAS

The Trade Outlook: More Gains Ahead

The devalued U.S. dollar is clearly stimulating the wood product export market. As an example, the average value of softwood lumber shipped to Japan rose from $297 per MBF in 1985 to $331 per MBF during the first ten months of 1987, an increase of 11 percent. However, adjusting for changes in the exchange rate, Japanese buyers actually paid 30 percent less in 1987 than in 1985.

The big question is whether the dollar will again decline and, if so, by how much. There is a danger that too much of a drop could set off a worldwide recession. Assuming that will not be the case, the export picture looks exceptionally bright. This is especially so when the market development efforts by U.S. producers are considered.

Wood exports next year should rise by at least another 15 percent, given current trends. As the dollar falls, the mix of exported products should also shift more toward processed goods, such as lumber and plywood, and away from unprocessed products like logs. There are two reasons for this. First, U.S. processed goods become more competitive *vis a vis* other supplying countries, including those in Southeast Asia. Second, as the price drops for U.S. species in foreign currencies, it becomes more economical to purchase processed goods rather than purchase and process the raw material. These are general axioms that should increasingly apply next year, all other things being equal.